

---

State of Idaho

Legislative Services Office

## Management Report

A communication to the Joint Finance-Appropriations Committee

---

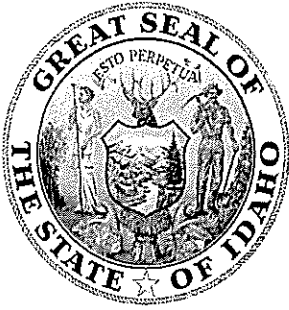
# IDAHO DIVISION OF VETERANS SERVICES

FY 2008, 2009, AND 2010

**Report IC44410**

**Date Issued: August 17, 2011**

*Serving Idaho's Citizen Legislature*



Idaho Legislative Services Office  
Legislative Audits Division

Don H. Berg, Manager

## IDAHO DIVISION OF VETERANS SERVICES

### SUMMARY

---

#### PURPOSE OF MANAGEMENT REVIEW

We conducted a management review of the Idaho Division of Veterans Services covering the fiscal years ended June 30, 2008, 2009, and 2010. Our review covered general administrative procedures and accounting controls to determine that activities are properly recorded and reported.

The intent of this review was not to express an opinion, but to provide general assurance on internal controls and to raise the awareness of management and others of any conditions and control weaknesses that may exist and offer recommendations for improvement.

#### CONCLUSION

We did not identify any significant conditions or weaknesses in the general administrative and accounting controls of the Division. However, our review identified issues with the Boise facility pharmacy contract and growing cash balances.

#### FINDINGS AND RECOMMENDATIONS

There are two findings and recommendations in this report.

**Finding 1** – Costs for contract pharmacy services at the Boise facility are excessive when compared with the other facilities.

**Finding 2** – Cash balances continue to grow, and no formal plan is in place to address this situation.

The complete findings are detailed on pages 1 and 2 of this report.

#### PRIOR FINDINGS AND RECOMMENDATIONS

There were no findings and recommendations in the prior report.

#### AGENCY RESPONSE

The Division has reviewed the report and is in general agreement with its contents. The Division's full response is on pages 1 and 2.

## FINANCIAL INFORMATION

The following financial data is for informational purposes only.

### IDAHO DIVISION OF VETERANS SERVICES—FISCAL YEAR 2010

Fund Title	Beginning Cash			Ending
	Balance/ Appropriation	Receipts/ Transfers	Expenditures/ Tranfers	Appropriation/ Cash
General Fund	\$1,382,500	\$0	\$1,283,914	\$98,586
Veterans Cemetery Maintenance Fund	96,038	31,212	36,086	91,164
Veterans Support Fund	40,259	43,962	4,172	80,049
Federal Grant Fund	5,529,408	9,374,760	7,250,282	7,653,886
Miscellaneous Revenue Fund	13,207,527	14,124,444	13,490,404	13,841,567
Veterans Homes Income Fund	223,857	1,217,658	1,213,633	227,882
Health and Welfare Trust Account	381,431	4,939,174	4,994,423	326,182
Veterans Services Fund	2,477	161,469	162,146	1,800
Totals	<u>\$20,863,497</u>	<u>\$29,892,679</u>	<u>\$28,435,060</u>	<u>\$22,321,116</u>

## OTHER INFORMATION

We discussed other issues which, if changed, would improve internal control, compliance, and efficiency.

This report is intended solely for the information and use of the State of Idaho and the Idaho Division of Veterans Services and is not intended to be used by anyone other than these specified parties.

We appreciate the cooperation and assistance given to us by the administrator, Dave Brasuell, and his staff.

## ASSIGNED STAFF

Chris Farnsworth, CPA, Managing Auditor

Jim Combo, CPA, In-Charge Auditor

James Barrett-Spencer, Staff Auditor

# TABLE OF CONTENTS

---

Findings and Recommendations .....	1
Agency Response.....	3
Appendix.....	4

# FINDINGS AND RECOMMENDATIONS

---

## FINDING 1

Costs for contract pharmacy services at the Boise facility are excessive when compared with the other facilities.

The Division contracts separately for pharmacy services at the Boise, Lewiston, and Pocatello nursing care facilities. Each facility manager develops the contract service requirements and terms and has the authority to select the contractor and award the contract. The Department of Administration, Division of Purchasing, issued an exemption to the soliciting and bidding requirements for pharmacy services due to the technical medical skills needed and the difficulty in assessing the qualifications. However, every effort should still be made to obtain the most favorable terms, conditions, and price possible (Administrative Rule 38-05-01).

Each of the three contracts has a base monthly contract fee but the Boise contract includes an \$11 fee per prescription filled, which significantly increases the cost of services. This fee is applied to both controlled and over-the-counter medications dispensed by the contract pharmacist. The following is a comparison of the fiscal year 2010 pharmacy contract costs and relative size of each facility:

Facility	# of Beds	Occupancy Rate	Monthly Contract Rate	Fees For Each Prescription	Annual Cost
Boise	167	88%	\$15,000	\$178,619	\$358,619
Lewiston	66	87%	8,943	0	107,316
Pocatello	66	76%	8,650	0	103,800

In addition, the Boise pharmacy contract, initially awarded in 2007 and extended in 2010, was based on very restrictive requirements which favored the existing contractor.

We also noted that monthly billings by the Boise contractor for the \$11 fee for each prescription were inaccurate. For example, the April 2010 prescription records show that 1,476 prescriptions were dispensed but only 1,365 were billed, resulting in an under-billing of \$1,221. We noted similar billing errors in other months.

We determined from Division staff that billing adjustments are made by the contractor, based on a verbal agreement with the Boise facility administrator to limit the fee to no more than \$15,000 per month. The written contract has not been formally amended which could create a liability for the Division should the contractor seek to recover the unbilled amounts.

## RECOMMENDATION

We recommend that the Division reevaluate the contract and bidding requirements for pharmacy services at the Boise facility to ensure that terms and conditions are reasonable and bidding requirements did not unnecessarily restrict competition. We also recommend that the Division adhere to the terms and conditions of the written pharmacy services contract or seek a formal amendment to support the current billing practice.

#### AGENCY'S RESPONSE AND CORRECTIVE ACTION PLAN

The Division reevaluated the contract and bidding requirements for pharmacy services at the Boise facility to ensure that terms and conditions are reasonable, and bidding requirements did not unnecessarily restrict competition. When this contract expires, a local area licensed pharmacist list will be obtained from the Board of Pharmacy to solicit services and obtain the most favorable terms, conditions, and price possible. The Division discussed the terms and conditions of the written policy with the contractor and will follow the terms and conditions of the written pharmacy services contract.

## FINDING 2

Cash balances continue to grow, and no formal plan is in place to address this situation.

Cash to operate the Division is provided by a General Fund appropriation and billings for services to a variety of entities, including Medicaid, Medicare, private insurance, and the Federal Veterans Administration (VA). Due to the requirements and separate nature of these billings, it is possible for the Division to recover more than the cost of care. For example, funds provided by the VA are excluded by federal law from the calculation of the costs billable to Medicare and Medicaid, which effectively allows the Division to recover more than the cost of care. As a result, the cash balances in the Division's two primary funds have increased steadily over the past four and a half years as follows:

#### CASH BALANCES AT YEAR-END

Fund	Title	6/30/2007	6/30/2008	6/30/2009	6/30/2010	At 12/31/10
0348	Federal Funds	4,577,738	4,239,573	5,529,408	7,653,887	10,943,156
0349	Misc. Revenue	8,007,438	10,725,827	13,207,527	13,841,567	16,314,301
Totals		\$12,585,175	\$14,965,400	\$18,736,935	\$21,495,454	\$27,257,457

Although one of these funds is identified as "Federal Funds," no advanced federal funds have been received, and no liability exists to the federal government or any other entity.

## RECOMMENDATION

**We recommend that the Division initiate a discussion with executive and legislative leadership to develop a formal plan to address the increasing cash balances.**

#### AGENCY'S RESPONSE AND CORRECTIVE ACTION PLAN

In past budget requests, the Division has requested additional spending authority to spend cash balances. The Division is in a unique situation, as its veterans nursing homes closely watch its expenditures to ensure the homes' care charges are comparable with other nursing homes. However, total reimbursement from all pay sources at times exceeds the actual cost, thus increasing cash balances. An initial plan to address the increasing cash balances was presented to legislative leadership last legislative session. A formal plan will be developed and discussed with executive and legislative leadership.

## AGENCY RESPONSE

---



State of Idaho  
**DIVISION OF VETERANS SERVICES**  
*"Caring for America's Heroes"*



**C.L. "BUTCH" OTTER**  
*Governor*

**DAVID E. BRASUELL**  
*Division Administrator*

351 Collins Road  
Boise, ID 83702-4519  
(208) 577-2310

August 8, 2011

Don Berg, Manager  
Legislative Audits  
Legislative Services Office  
PO Box 83720  
Boise, ID 83720-0054

Dear Mr. Berg:

On behalf of the Division, we thank you for the efforts of your staff and for the opportunity to respond to your report. We are pleased no significant conditions or weaknesses were identified in the Division's general administrative and accounting controls. The Idaho Division of Veterans Services has reviewed and is enclosing responses to the recommendations presented in the Management Report for fiscal years ending June 30, 2008, 2009 and 2010.

If you have any further questions, please contact Debbie Spence at 577-2315.

Sincerely,

David E. Brasuell  
Administrator

DEB:dls

c: Don Riegel, Chair, Idaho Veterans Affairs Commission  
Tyler Mallard, Special Assistant for Natural Resources and Uniformed Services, Office  
of the Governor

Enclosure



# APPENDIX

---

## **HISTORY AND STATUTORY AUTHORITY**

The "Old Soldier's Home" formally opened in May 1895. It was replaced by a new home constructed at a different location and dedicated in November 1966. In 1977, legislation was passed approving an 80-bed skilled nursing care facility in Boise. The two-story Idaho Veterans Nursing Unit was built adjoining the present Idaho Veterans Home and was dedicated on November 11, 1980.

In 1984, an effort began to locate regional State veterans homes throughout Idaho. That effort culminated in 1989, when the legislature appropriated State matching funds for a home in Pocatello, which opened in 1992. In 1990, the legislature appropriated State matching funds for a home in Lewiston, which opened in 1994.

Prior to fiscal year 2001, the operations of State veterans homes were reported in conjunction with the Department of Health and Welfare. On July 1, 2000, the Division of Veterans Services was designated a self-governing agency as specifically set forth in Title 66, Chapter 9 of the Idaho Code.

The administrator is appointed by the Governor from a list of nominated candidates submitted by the Veterans Affairs Commission. The administrator may only be removed from office by the Governor with the Veterans Affairs Commission's consent.

## **PURPOSE**

The purpose of the Division of Veterans Services is to provide services to honorably discharged servicemen and women, who served active duty in the armed forces of the United States during a period of war recognized by the United States Department of Veterans Affairs.

Services are provided through the management and operation of the veterans homes, provisions of financial relief and assistance, outreach services provided through the Office of Veterans Advocacy, and the Veterans Cemetery. The Division also acts as the Department of Veterans Affairs' State Approving Agency (SAA), providing oversight of federal veteran education programs, such as the Montgomery GI Bill.

## **FUNDING**

The Division is funded by a General Fund appropriation, funds received on behalf of eligible clients in the form of per diem, Medicaid payments received on behalf of eligible clients, reimbursement for costs as the SAA, and private patient payments.

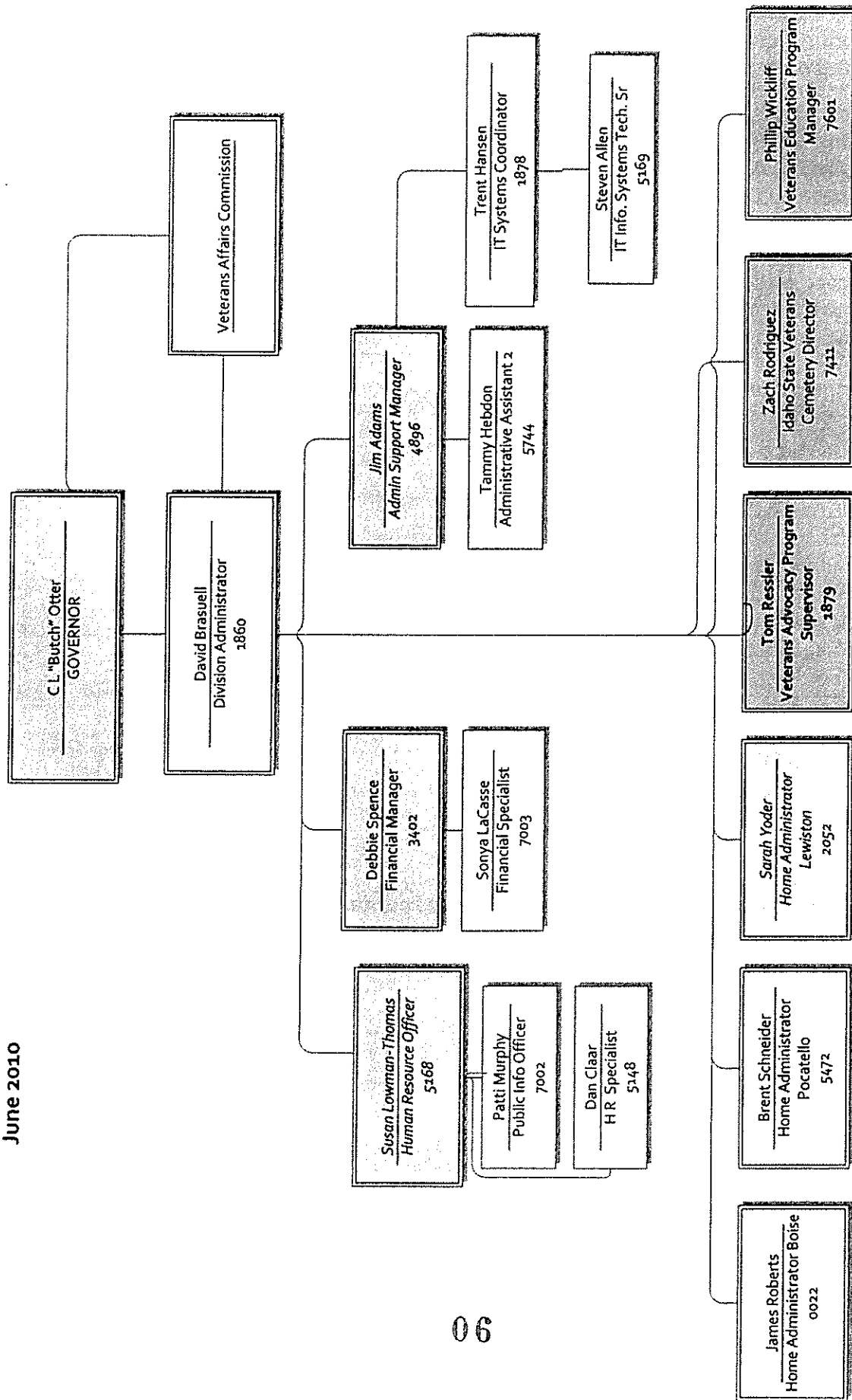
## **ORGANIZATION**


As shown on the organization chart, the Division consists of seven operational units:

1. Division Administration – monitors the financial condition of the Division as a whole.
2. Office of Veterans Advocacy – provides outreach services to veterans in need of services.
3. Boise Veterans Home – provides skilled nursing and residential/domiciliary services to eligible clients.
4. Lewiston Veterans Home – provides skilled nursing care to eligible clients.
5. Pocatello Veterans Home – provides skilled nursing care to eligible clients.

6. Veterans Cemetery – provides a final resting place for the burial or entombment of eligible clients and their spouse.
7. Veterans Education Program Administration – as the SAA, the Division evaluates approves, and monitors academic institutions, schools, and programs for veterans.

## June 2010



For:  David E. Braswell, Division Administrator

David E Brasuell, Division Administrator

6-18-2010